

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Bay Area Narcotics Enforcement Team	County Bay
Fiscal Year End December 31, 2006	Opinion Date June 21, 2007	Date Audit Report Submitted to State June 28 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

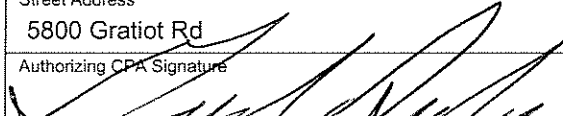
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580	
Street Address 5800 Gratiot Rd		City Saginaw	State MI
Zip 48603			
Authorizing CPA Signature 	Printed Name Gerald J. Desloover, CPA		License Number 1101007126

**BAY AREA NARCOTICS
ENFORCEMENT TEAM (BAYANET)**

Bay City, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2006**

**BAY AREA NARCOTICS
ENFORCEMENT TEAM (BAYANET)**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements for the Year Ended December 31, 2006	
Statement of Net Assets and General Fund Balance Sheet	3
Statement of Activities and General Fund, Revenues, Expenditures, And Changes in Fund Balance	4
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	5
Statement of Fiduciary Net Assets	6
Notes to Financial Statements	7-13



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

June 21, 2007

To the Board of Directors
Bay Area Narcotics Enforcement
Team (BAYANET)
Saginaw, Bay, Midland, Gladwin,
Isabella and Clare, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the remaining fund information of the ***Bay Area Narcotics Enforcement Team (BAYANET)***, a component unit of Bay County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise BAYANET's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of BAYANET's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the remaining fund information of the ***Bay Area Narcotics Enforcement Team*** as of December 31, 2006, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The ***Bay Area Narcotics Enforcement Team*** has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, looping 'L' at the beginning.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2006

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 207,728	\$ -	\$ 207,728
Accounts receivable	31,654	-	31,654
Prepaid items	2,400	-	2,400
Capital assets, net of accumulated depreciation	-	28,632	28,632
Total assets	<u>\$ 241,782</u>	<u>28,632</u>	<u>270,414</u>
Liabilities			
Accounts payable	\$ 76,093	-	76,093
Accrued liabilities	11,928	-	11,928
Total liabilities	<u>88,021</u>	<u>-</u>	<u>88,021</u>
Fund Balance / Net Assets			
Fund Balance:			
Reserved for prepaid items	2,400	(2,400)	-
Unreserved	<u>151,361</u>	<u>(151,361)</u>	<u>-</u>
Total fund balance	<u>153,761</u>	<u>(153,761)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 241,782</u>		
Net Assets:			
Invested in capital assets		28,632	28,632
Unrestricted		<u>153,761</u>	<u>153,761</u>
Total net assets		<u>\$ 182,393</u>	<u>\$ 182,393</u>

The accompanying notes are an integral part of these financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures / expenses			
Public safety	<u>\$ 772,869</u>	<u>\$ 7,463</u>	<u>\$ 780,332</u>
Program revenues			
Charges for services	310,030	-	310,030
Operating grants and contributions	<u>362,278</u>	<u>-</u>	<u>362,278</u>
Total program revenues	<u>672,308</u>	<u>-</u>	<u>672,308</u>
Net program revenues			(108,024)
General revenues			
Interest earnings	<u>2,140</u>	<u>-</u>	<u>2,140</u>
Revenues over (under) expenditures	(98,421)	98,421	-
Change in net assets	-	(105,884)	(105,884)
Fund balance / net assets			
Beginning of the year	<u>252,182</u>	<u>36,095</u>	<u>288,277</u>
End of the year	<u><u>\$ 153,761</u></u>	<u><u>\$ 28,632</u></u>	<u><u>\$ 182,393</u></u>

The accompanying notes are an integral part of these financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Forfeitures	\$ 493,100	\$ 493,100	\$ 287,873	\$ (205,227)
Grants - Saginaw Chippewa Tribe	-	-	352,624	352,624
Interest income	-	-	2,140	2,140
Reimbursements	-	-	22,157	22,157
Other	-	-	9,654	9,654
Total revenues	493,100	493,100	674,448	181,348
Expenditures				
Wages and payroll taxes	75,000	75,000	288,230	213,230
Office supplies	10,000	10,000	11,142	1,142
Narcotics / operational purchases	40,000	40,000	66,614	26,614
Informants	9,000	9,000	11,112	2,112
Investigative	5,000	5,000	9,939	4,939
Office lease and utilities	42,000	42,000	42,642	642
Communications	32,000	32,000	29,895	(2,105)
Federal grant shares	112,000	115,000	52,799	(62,201)
Vehicle leases	110,000	110,000	159,264	49,264
Forfeiture costs	9,000	9,000	76,039	67,039
Contracted services	12,000	12,000	15,494	3,494
Equipment repairs	2,500	2,500	-	(2,500)
Vehicle repairs and towing	2,100	2,100	659	(1,441)
Education and training	5,500	5,500	5,410	(90)
Capital outlay	27,000	27,000	3,630	(23,370)
Total expenditures	493,100	496,100	772,869	276,769
Net change in fund balance	-	(3,000)	(98,421)	(95,421)
Fund balance, beginning of year	252,182	252,182	252,182	-
Fund balance, end of year	<u>\$ 252,182</u>	<u>\$ 249,182</u>	<u>\$ 153,761</u>	<u>\$ (95,421)</u>

The accompanying notes are an integral part of these financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2006

	Agency Fund
Assets	
Cash and cash equivalents	<u><u>\$ 128,705</u></u>
Liabilities	
Unadjudicated seizures	<u><u>\$ 128,705</u></u>

The accompanying notes are an integral part of these financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

1. DESCRIPTION OF THE ENTITY

BAYANET was formed in 1981 as a cooperative, multi-jurisdictional unit of narcotic investigators comprised of personnel from municipal, county, and state law enforcement agencies within the Counties of Saginaw, Bay, Midland, Gladwin, Isabella and Clare.

BAYANET is a discretely presented component unit of the County of Bay, Michigan. Accordingly, the accounting policies of BAYANET conform to generally accepted accounting principles as applicable to governments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

As permitted by GASB Statement No. 34, BAYANET uses an alternative approach reserved for single program governments to present combined government-wide fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and General Fund Balance Sheet and the Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balances.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

BAYANET maintains only one governmental fund – the general fund, which is also considered a major fund for reporting purposes. Separate financial statements are provided for the general fund and the fiduciary fund, even though the latter is excluded from the government-wide financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The agency fund uses the accrual basis of accounting also, but does not have a measurement focus.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Modifications from the accrual basis are: (a) revenue is recognized when it becomes measurable and is available as a net current asset and (b) expenditures are recorded when the liability is incurred, except for principal and interest on long-term obligations which are recorded when due. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts presented as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Interest earned on deposits is reported as *general revenues* rather than as program revenues.

Deposits

Cash and cash equivalents consist of cash on hand and deposits in demand and time deposit accounts.

Accounts Receivable

Accounts receivable represent amounts due from Isabella County (payable from a grant awarded by the Saginaw Chippewa Indian Tribe of Michigan to BAYANET) and reimbursements for wages of personnel funded by member counties totaling \$31,654 which are expected to be collected within one year.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

Capital Assets

Capital assets are comprised of office equipment and are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Office equipment is depreciated using the straight-line method over estimated useful lives of four to seven years.

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year. BAYANET approves total budget amounts by function; BAYANET currently has one function, which is Public Safety. Unused appropriations for all items lapse at the end of the year.

BAYANET had expenditures (\$772,869) in excess of budgeted appropriations (\$496,100) at the functional level of \$276,769 for the year ended December 31, 2006.

Donated Services

Substantial services related to the utilization of personnel and personal property is contributed by cooperating law enforcement agencies. The value of these services has not been recognized in the financial statements since the amount is not subject to reasonable estimation. Any legal proceedings resulting from the actions of such personnel or the use of donated personal property are the responsibility of the donor agency.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

3. DEPOSITS

At year-end, the carrying amounts of BAYANET's deposits were as follows:

	Cash and Cash Equivalents
Cash on hand	\$ 25,000
Other demand accounts	<u>311,433</u>
	<u>\$ 336,433</u>

This entire balance is considered to be deposits for disclosure purposes.

Deposit and investment risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Interest Rate Risk. BAYANET's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. BAYANET's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, BAYANET had no investments and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, BAYANET's deposits may not be returned. State law does not require and BAYANET does not have a policy for deposit custodial credit risk. At year-end, \$114,579 of BAYANET's bank balance of \$314,579 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. BAYANET's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, BAYANET had no investments and was therefore, not exposed to concentration of credit risk.

4. LEASES

BAYANET leases office space from SAHASA Realty Company on a month to month basis. Total rent expenditures for the year ended December 31, 2006, were \$14,400. BAYANET leases vehicles through the State of Michigan's procurement program. Total vehicle lease expenditures for the year ended December 31, 2006, were \$159,264.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated:				
Office equipment	\$ 65,134	\$ 3,630	\$ -	\$ 68,764
Less accumulated depreciation for:				
Furniture and equipment	<u>(29,039)</u>	<u>(11,093)</u>	<u>-</u>	<u>(40,132)</u>
Governmental activities capital assets, net	<u>\$ 36,095</u>	<u>\$ (7,463)</u>	<u>\$ -</u>	<u>\$ 28,632</u>

6. RISK MANAGEMENT

BAYANET is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. BAYANET carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded the insurance coverage during the past three years.

7. ADJUSTMENTS

Following is an explanation of the adjustments between the general fund balance sheet and the government-wide statement of net assets, which reconciles fund balance to net assets:

Fund balance	\$ 153,761
Adjustments:	
Capital assets that are purchased to be used in governmental activities are reported as expenditures in the general fund. However, the statement of net assets includes those capital assets (net of accumulated depreciation) among BAYANET's assets as a whole	<u>28,632</u>
Net assets	<u>\$ 182,393</u>

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

Following is an explanation of the adjustments between the general fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

Net change in fund balance	\$ (98,421)
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Adjustments:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	3,630
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Depreciation expense is reported in the statement of activities, but because depreciation does not require the use of current financial resources, it is not reported as an expenditure in the general fund.	<u>(11,093)</u>
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Change in net assets	<u>\$ (105,884)</u>
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REHMANN ROBSON

Certified Public Accountants

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June 25, 2007

To the Board of Directors
Bay Area Narcotics Enforcement
Team (BAYANET)
Saginaw, Bay, Midland, Gladwin
Isabella and Clare, Michigan

We have audited the financial statements of the governmental activities, the major fund and the remaining fund information of the **Bay Area Narcotics Enforcement Team ("BAYANET")** for the year ended December 31, 2006, and have issued our report thereon dated June 21, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 9, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of **BAYANET**. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by **BAYANET** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by **BAYANET** during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is the allowance for depreciation of certain capital assets.

Management's estimate of the allowance for depreciation is based on estimated useful lives of the assets and depreciation methods in accordance with generally accepted accounting principles. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Agency's financial reporting process (that is, cause future financial statements to be materially misstated.) The following audit adjustment(s), in our judgment, indicate matters that could have a significant effect on the BAYANET's financial reporting process:

All audit entries that were posted to convert financial statements from cash basis to modified accrual basis and from modified accrual basis to full accrual basis. In other words, audit entries are required to properly account for receivables, payables, capital assets, etc.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Board of Directors
Bay Area Narcotics Enforcement
Team (BAYANET)
June 21, 2007
Page 3

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principal to the Agency’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as **BAYANET’s** auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Board of Directors, and if considered appropriate, management of **BAYANET** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Comments and Recommendations

For the Year Ended December 31, 2006

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of BAYANET as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered BAYANET's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. e However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Comments and Recommendations

For the Year Ended December 31, 2006

1) Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, BAYANET's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by BAYANET's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, BAYANET lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	BAYANET has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in its best interests to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Comments and Recommendations

For the Year Ended December 31, 2006

2) Segregation of Duties

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting safeguarding BAYANET'S assets.
Condition:	<p>During the course of our audit, we noted several instances where multiple key financial duties were being performed by the same individual and there were no mitigating controls in place to ensure effective internal controls. Specifically, we found that the following incompatible functions are being performed by the same individual:</p> <ol style="list-style-type: none">(1) The physical receipting of cash and checks is done by the individual who also prepares and make bank deposits(2) The individual who prepares bank reconciliations also handles cash receipts and disbursements(3) The individual who initiates transfers between bank accounts also prepares the bank reconciliations and has access to the general ledger
Cause:	As is the case with many organizations of similar size, BAYANET lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.
Effect:	BAYANET's current system of internal control does not appear to have sufficient safeguards in place to ensure that fraud or abuse is prevented or can be detected in a timely manner. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.
Recommendation:	While there are no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.
